

## SECOND.XLS

489133	12	0	12
891310	12	0	12
919201	12	0	12
919232	12	0	12
62571	12	0	13
106966	12	0	13
168013	12	0	13
192385	12	0	13
198007	12	0	13
213354	12	0	13
218504	12	0	13
218635	12	0	13
228501	12	0	13
305596	12	0	13
320850	12	0	13
372122	12	0	13
470704	12	0	13
473911	12	0	13
497249	12	0	13
502574	12	0	13
538558	12	0	13
568835	12	0	13
578823	12	0	13
600375	12	0	13
648029	12	0	13
648041	12	0	13
720320	12	0	13
736584	12	0	13
797742	12	0	13
825597	12	0	13
839467	12	0	13
883511	12	0	13
906312	12	0	13
919190	12	0	13
948246	12	0	13
124681	12	1	13
295839	12	1	13
563083	12	1	13
597536	12	1	13
215710	12	0	16
254067	12	0	16
798723	12	0	16
97572	12	0	17
235347	12	0	17
331586	12	0	17
483142	12	0	17
583124	12	0	17
629611	12	0	17
716593	12	0	17

## SECOND.XLS

726579	12	0	17
979681	12	0	17
992687	12	0	17
323173	12	1	17
819158	12	1	17
73213	12	0	18
96487	12	0	18
101826	12	0	18
132123	12	0	18
259098	12	0	18
268181	12	0	18
272297	12	0	18
358309	12	0	18
509731	12	0	18
606262	12	0	18
841169	12	0	18
850789	12	0	18
953675	12	0	18
35585	12	0	19
45261	12	0	19
181720	12	0	19
189021	12	0	19
233395	12	0	19
251073	12	0	19
274617	12	0	19
331711	12	0	19
385698	12	0	19
409273	12	0	19
467313	12	0	19
471351	12	0	19
475943	12	0	19
476376	12	0	19
476995	12	0	19
478146	12	0	19
553007	12	0	19
609776	12	0	19
641103	12	0	19
663657	12	0	19
766330	12	0	19
767980	12	0	19
807288	12	0	19
812471	12	0	19
997526	12	0	19
48348	12	1	19
98243	12	1	19
482472	12	1	19
953897	12	1	19
165668	12	0	20
204172	12	0	20

## SECOND.XLS

228879	12	0	20
787012	12	0	20
908202	12	0	20
553273	12	1	20
17201	12	0	21
102442	12	0	21
145768	12	0	21
198465	12	0	21
257596	12	0	21
274009	12	0	21
274010	12	0	21
333312	12	0	21
333333	12	0	21
352910	12	0	21
415335	12	0	21
539288	12	0	21
651973	12	0	21
717269	12	0	21
764472	12	0	21
835371	12	0	21
884186	12	0	21
906657	12	0	21
926146	12	0	21
955126	12	0	21
980486	12	0	21
828511	12	1	21
75344	12	0	22
233236	12	0	22
483523	12	0	22
483530	12	0	22
499006	12	0	22
516699	12	0	22
528247	12	0	22
553296	12	0	22
560972	12	0	22
667768	12	0	22
908623	12	0	22
920193	12	0	22
993049	12	0	22
245709	12	1	22
51664	12	0	23
139015	12	0	23
162994	12	0	23
209239	12	0	23
216840	12	0	23
224821	12	0	23
513484	12	0	23
560297	12	0	23
578884	12	0	23

722107	12	0	23
852319	12	0	23
854691	12	0	23
861013	12	0	23
989208	12	0	23
212071	12	1	23
345167	12	1	23
475092	12	1	23
517205	12	1	23
642045	12	1	23
740805	12	0	25
24620	12	0	26
39841	12	0	26
48617	12	0	26
221343	12	0	26
224466	12	0	26
231105	12	0	26
256757	12	0	26
266211	12	0	26
488314	12	0	26
557106	12	0	26
559319	12	0	26
568827	12	0	26
600918	12	0	26
892868	12	0	26
910541	12	0	26
919546	12	0	26
957143	12	0	26
733595	12	1	26
4370	12	0	27
49873	12	0	27
68169	12	0	27
131815	12	0	27
155204	12	0	27
160738	12	0	27
210691	12	0	27
214681	12	0	27
214703	12	0	27
221825	12	0	27
234332	12	0	27
239442	12	0	27
251879	12	0	27
251975	12	0	27
252816	12	0	27
257887	12	0	27
272769	12	0	27
426410	12	0	27
471520	12	0	27
477541	12	0	27

## SECOND.XLS

478954	12	0	27
539340	12	0	27
542681	12	0	27
554245	12	0	27
593279	12	0	27
620584	12	0	27
664804	12	0	27
682571	12	0	27
690062	12	0	27
738742	12	0	27
749042	12	0	27
784361	12	0	27
792116	12	0	27
798100	12	0	27
866301	12	0	27
893544	12	0	27
912011	12	0	27
957175	12	0	27
998755	12	0	27
72068	12	1	27
190184	12	1	27
214668	12	1	27
259170	12	1	27
333763	12	1	27
498404	12	1	27
470957	12	0	28
926276	12	0	28
67243	12	0	29
76695	12	0	29
157614	12	0	29
222189	12	0	29
228500	12	0	29
232664	12	0	29
553255	12	0	29
554369	12	0	29
667330	12	0	29
711313	12	0	29
766541	12	0	29
918138	12	0	29
50386	12	0	30
62724	12	0	30
150233	12	0	30
154580	12	0	30
180135	12	0	30
221934	12	0	30
232075	12	0	30
246913	12	0	30
478209	12	0	30
478230	12	0	30

## SECOND.XLS

482958	12	0	30
488805	12	0	30
637369	12	0	30
658297	12	0	30
729674	12	0	30
784387	12	0	30
789454	12	0	30
898441	12	1	30
45338	12	0	31
67435	12	0	31
98278	12	0	31
168192	12	0	31
204393	12	0	31
219484	12	0	31
233059	12	0	31
233077	12	0	31
233106	12	0	31
328070	12	0	31
367426	12	0	31
386043	12	0	31
479899	12	0	31
503836	12	0	31
504009	12	0	31
508752	12	0	31
601809	12	0	31
606645	12	0	31
610096	12	0	31
620743	12	0	31
639996	12	0	31
667693	12	0	31
789213	12	0	31
823847	12	0	31
824004	12	0	31
851120	12	0	31
867323	12	0	31
904639	12	0	31
910031	12	0	31
918187	12	0	31
920155	12	0	31
483441	12	1	31
491330	12	1	31
710291	12	1	31
902512	12	1	31
993119	12	1	31
624643	12	0	32
744967	12	0	32
687339	12	0	33
934981	12	0	33
2467	12	0	35

## SECOND.XLS

125428	12	0	35
507671	12	0	35
23184	12	0	36
28419	12	0	36
36978	12	0	36
38677	12	0	36
44744	12	0	36
50486	12	0	36
52070	12	0	36
52208	12	0	36
57535	12	0	36
59111	12	0	36
67241	12	0	36
69453	12	0	36
73619	12	0	36
86306	12	0	36
98122	12	0	36
117209	12	0	36
120426	12	0	36
123025	12	0	36
123029	12	0	36
123039	12	0	36
132689	12	0	36
150615	12	0	36
151008	12	0	36
153368	12	0	36
163195	12	0	36
167988	12	0	36
177585	12	0	36
183619	12	0	36
186298	12	0	36
194920	12	0	36
195569	12	0	36
205741	12	0	36
205916	12	0	36
206153	12	0	36
206249	12	0	36
211337	12	0	36
212545	12	0	36
212551	12	0	36
217259	12	0	36
217718	12	0	36
217729	12	0	36
217764	12	0	36
225494	12	0	36
225879	12	0	36
226027	12	0	36
226371	12	0	36
226446	12	0	36

## SECOND.XLS

241553	12	0	36
242256	12	0	36
242624	12	0	36
242666	12	0	36
242672	12	0	36
251927	12	0	36
252608	12	0	36
252842	12	0	36
252926	12	0	36
257035	12	0	36
265114	12	0	36
269990	12	0	36
270102	12	0	36
274623	12	0	36
278265	12	0	36
281738	12	0	36
282965	12	0	36
284684	12	0	36
284719	12	0	36
318827	12	0	36
332365	12	0	36
352077	12	0	36
360384	12	0	36
373896	12	0	36
374914	12	0	36
374956	12	0	36
375085	12	0	36
375487	12	0	36
389656	12	0	36
416544	12	0	36
421442	12	0	36
435348	12	0	36
458028	12	0	36
472888	12	0	36
476565	12	0	36
486003	12	0	36
487215	12	0	36
487256	12	0	36
487258	12	0	36
501360	12	0	36
518023	12	0	36
523177	12	0	36
534035	12	0	36
550757	12	0	36
583550	12	0	36
599709	12	0	36
600994	12	0	36
602392	12	0	36
633176	12	0	36



## SECOND.XLS

634750	12	0	36
638157	12	0	36
642995	12	0	36
644167	12	0	36
644193	12	0	36
644279	12	0	36
644514	12	0	36
644587	12	0	36
685660	12	0	36
688274	12	0	36
710899	12	0	36
747505	12	0	36
780465	12	0	36
780497	12	0	36
780572	12	0	36
780647	12	0	36
792380	12	0	36
852674	12	0	36
860786	12	0	36
863433	12	0	36
863878	12	0	36
870425	12	0	36
889756	12	0	36
921154	12	0	36
931048	12	0	36
960811	12	0	36
960863	12	0	36
961382	12	0	36
961459	12	0	36
989592	12	0	36
993996	12	0	36
994001	12	0	36
997275	12	0	36
52044	12	1	36
169662	12	1	36
242680	12	1	36
257026	12	1	36
268437	12	1	36
508433	12	1	36
557045	12	1	36
625048	12	1	36
644522	12	1	36
681364	12	1	36
825162	12	1	36
1016	12	0	37
33981	12	0	37
128749	12	0	37
227899	12	0	37
227976	12	0	37

## SECOND.XLS

228074	12	0	37
242809	12	0	37
243420	12	0	37
254278	12	0	37
257272	12	0	37
258591	12	0	37
301400	12	0	37
327802	12	0	37
438299	12	0	37
444101	12	0	37
523678	12	0	37
538484	12	0	37
555059	12	0	37
647023	12	0	37
723076	12	0	37
723135	12	0	37
746626	12	0	37
828039	12	0	37
867861	12	0	37
907879	12	0	37
908804	12	0	37
168816	12	1	37
998387	12	1	37
38645	12	0	38
141710	12	0	38
270622	12	0	38
385004	12	0	38
479467	12	0	38
733562	12	0	38
798916	12	0	38
848543	12	0	38
893692	12	0	38
921472	12	0	38
177926	12	1	38
245173	12	1	38
576190	12	1	38
20939	12	0	39
66688	12	0	39
84143	12	0	39
116323	12	0	39
151281	12	0	39
161222	12	0	39
197758	12	0	39
205002	12	0	39
230162	12	0	39
244227	12	0	39
248279	12	0	39
307405	12	0	39
307406	12	0	39

## SECOND.XLS

307423	12	0	39
308353	12	0	39
376544	12	0	39
487548	12	0	39
535407	12	0	39
555339	12	0	39
562683	12	0	39
569242	12	0	39
571154	12	0	39
571194	12	0	39
578226	12	0	39
593193	12	0	39
602176	12	0	39
688359	12	0	39
689426	12	0	39
799196	12	0	39
835484	12	0	39
852602	12	0	39
853335	12	0	39
891950	12	0	39
902973	12	0	39
904428	12	0	39
919602	12	0	39
963284	12	0	39
213975	12	1	39
378021	12	1	39
840716	12	1	39
38748	12	0	40
157936	12	0	40
215310	12	0	40
223169	12	0	40
283996	12	0	40
398727	12	0	40
466658	12	0	40
471811	12	0	40
516767	12	0	40
631172	12	0	40
668146	12	0	40
792544	12	0	40
798315	12	0	40
948419	12	0	40
992033	12	0	40
744227	12	1	40
851721	12	1	40
873469	12	1	40
24988	12	0	41
149434	12	0	41
149684	12	0	41
203364	12	0	41

## SECOND.XLS

224163	12	0	41
235934	12	0	41
267448	12	0	41
270985	12	0	41
486261	12	0	41
540046	12	0	41
556484	12	0	41
602155	12	0	41
605405	12	0	41
622996	12	0	41
684965	12	0	41
859009	12	0	41
914107	12	0	41
993436	12	0	41
252904	12	1	41
900800	12	1	41
3060	12	0	42
21841	12	0	42
52464	12	0	42
56590	12	0	42
98539	12	0	42
98606	12	0	42
121741	12	0	42
141088	12	0	42
150218	12	0	42
151975	12	0	42
152955	12	0	42
179153	12	0	42
207027	12	0	42
207036	12	0	42
207174	12	0	42
212702	12	0	42
218020	12	0	42
218080	12	0	42
218299	12	0	42
226798	12	0	42
238036	12	0	42
250807	12	0	42
257096	12	0	42
257172	12	0	42
265200	12	0	42
336934	12	0	42
385333	12	0	42
470083	12	0	42
470141	12	0	42
470351	12	0	42
473155	12	0	42
487542	12	0	42
514001	12	0	42

## SECOND.XLS

528595	12	0	42
531690	12	0	42
549943	12	0	42
557221	12	0	42
599786	12	0	42
611298	12	0	42
617567	12	0	42
617584	12	0	42
617717	12	0	42
644914	12	0	42
644978	12	0	42
681869	12	0	42
682823	12	0	42
683494	12	0	42
704373	12	0	42
716103	12	0	42
722729	12	0	42
736931	12	0	42
750342	12	0	42
795135	12	0	42
832247	12	0	42
856978	12	0	42
890441	12	0	42
913650	12	0	42
915568	12	0	42
963933	12	0	42
970944	12	0	42
143926	12	1	42
155952	12	1	42
184813	12	1	42
242828	12	1	42
263030	12	1	42
274751	12	1	42
386283	12	1	42
451115	12	1	42
492214	12	1	42
526353	12	1	42
545349	12	1	42
546456	12	1	42
921312	12	1	42
64247	12	0	45
163249	12	0	45
174103	12	0	45
210051	12	0	45
213249	12	0	45
228287	12	0	45
228305	12	0	45
438120	12	0	45
478860	12	0	45

## SECOND.XLS

538505	12	0	45
545427	12	0	45
618385	12	0	45
640531	12	0	45
686982	12	0	45
719458	12	0	45
735816	12	0	45
735847	12	0	45
740889	12	0	45
785805	12	0	45
791913	12	0	45
851868	12	0	45
927066	12	0	45
964535	12	0	45
964708	12	0	45
984318	12	0	45
204978	12	1	45
285262	12	1	45
49223	12	0	46
169977	12	0	46
255442	12	0	46
274872	12	0	46
412224	12	0	46
499063	12	0	46
601165	12	0	46
665278	12	0	46
690111	12	0	46
907042	12	0	46
909767	12	0	46
601510	12	1	46
9302	12	0	47
11581	12	0	47
154033	12	0	47
213824	12	0	47
215165	12	0	47
220199	12	0	47
220315	12	0	47
244001	12	0	47
246960	12	0	47
247387	12	0	47
289743	12	0	47
470944	12	0	47
474652	12	0	47
481477	12	0	47
510139	12	0	47
529878	12	0	47
544578	12	0	47
551014	12	0	47
556212	12	0	47

## SECOND.XLS

600589	12	0	47
649544	12	0	47
732149	12	0	47
757629	12	0	47
794047	12	0	47
800963	12	0	47
801970	12	0	47
819814	12	0	47
877697	12	0	47
882683	12	0	47
884037	12	0	47
884499	12	0	47
884794	12	0	47
891727	12	0	47
905413	12	0	47
965589	12	0	47
976037	12	0	47
986506	12	0	47
987803	12	0	47
159364	12	1	47
649526	12	1	47
649541	12	1	47
882916	12	1	47
884524	12	1	47
965002	12	1	47
994284	12	1	47
31383	12	0	48
33657	12	0	48
123043	12	0	48
134776	12	0	48
215419	12	0	48
279260	12	0	48
279279	12	0	48
294237	12	0	48
303866	12	0	48
492065	12	0	48
499483	12	0	48
499506	12	0	48
592757	12	0	48
603760	12	0	48
603857	12	0	48
621490	12	0	48
669563	12	0	48
669660	12	0	48
669679	12	0	48
700066	12	0	48
717347	12	0	48
784752	12	0	48
824469	12	0	48

913105	12	0	48
984883	12	0	48
995802	12	0	48
39125	12	1	48
159836	12	1	48
192208	12	1	48
240172	12	1	48
259477	12	1	48
544336	12	1	48
878322	12	1	48
158107	12	0	49
233005	12	0	49
275887	12	0	49
605713	12	0	49
868522	12	0	49
895123	12	0	49
899851	12	0	49
162080	12	1	49
153223	12	0	50
160082	12	0	50
179716	12	0	50
568030	12	0	50
599401	12	0	50
9725	12	0	51
150093	12	0	51
646816	12	0	51
802157	12	0	51
90753	12	1	51
209583	12	1	51
62052	12	0	53
96973	12	0	53
199766	12	0	53
271016	12	0	53
388731	12	0	53
472318	12	0	53
561667	12	0	53
602158	12	0	53
694555	12	0	53
823399	12	0	53
855371	12	0	53
928448	12	0	53
3440	12	1	53
860637	12	1	53
4886	12	0	54
119955	12	0	54
140231	12	0	54
243349	12	0	54
243395	12	0	54
265357	12	0	54



## SECOND.XLS

265359	12	0	54
473464	12	0	54
541764	12	0	54
739043	12	0	54
838992	12	0	54
871890	12	0	54
902104	12	0	54
1229	12	0	55
49468	12	0	55
56442	12	0	55
63549	12	0	55
97001	12	0	55
107705	12	0	55
114495	12	0	55
135952	12	0	55
141654	12	0	55
201293	12	0	55
210657	12	0	55
217855	12	0	55
231635	12	0	55
231636	12	0	55
256620	12	0	55
261819	12	0	55
264314	12	0	55
266332	12	0	55
274763	12	0	55
286363	12	0	55
295107	12	0	55
310374	12	0	55
336999	12	0	55
482628	12	0	55
489029	12	0	55
502459	12	0	55
511956	12	0	55
519193	12	0	55
522278	12	0	55
522332	12	0	55
533993	12	0	55
544455	12	0	55
558766	12	0	55
566697	12	0	55
588884	12	0	55
606487	12	0	55
612731	12	0	55
618885	12	0	55
664044	12	0	55
664241	12	0	55
689597	12	0	55
717885	12	0	55

## SECOND.XLS

744597	12	0	55
750227	12	0	55
794752	12	0	55
799319	12	0	55
835945	12	0	55
849682	12	0	55
893189	12	0	55
893259	12	0	55
906969	12	0	55
919901	12	0	55
927579	12	0	55
969149	12	0	55
969374	12	0	55
231646	12	1	55
522789	12	1	55
544477	12	1	55
911965	12	1	55
237324	12	0	56
336369	12	0	56
482888	12	0	56
915566	12	0	56

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With this report, we  
initiate coverage of  
Cincinnati Bell Inc. with  
a Buy rating.

## Cincinnati Bell, Inc.

### More Than a Phone Company: Billing and Teleservices Drive Growth

Buy



## Salomon Brothers

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With this report, we  
initiate coverage of  
Cincinnati Bell Inc. with  
a Buy rating.

# Cincinnati Bell Inc. — More than Just a Phone Company

## Buy

- We have initiated coverage of Cincinnati Bell Inc. (CSN) with a Buy rating. CSN, which has traditionally been a local phone company, now earns nearly half of its operating income from its faster growth billing and teleservices companies (Cincinnati Bell Information Systems and MATRIX Marketing Inc.).
- We expect CSN to benefit as its faster-growth customer care businesses contribute an increasing percentage of earnings, and as the phone company manages its expected market share losses caused by the deregulation in its market. We expect both CBIS and MATRIX to continue to post strong growth as they take advantage of the secular trend toward outsourcing and as they benefit from the greater emphasis on marketing and customer service in the increasingly deregulated communications marketplace.
- While CSN is no longer the undiscovered value that it was a few years ago, we believe it remains an undervalued asset which offers the potential for significant upside over the next 12-18 months.

**Figure 1. Cincinnati Bell Inc. — Statistical Abstract**

Ticker/Exchange:	CSN/NYSE	Dividend:	\$0.40
Price (20 Nov):	\$27 <sup>3</sup> / <sub>4</sub>	Yield:	1.4%
52-Week Price Range:	\$34-\$23	Book Value Per Share:	\$5.60
Investment Code:	Buy	Shares Outstanding:	137.7 Million
		Market Capitalization:	\$3.82 Billion

  

	EPS		P/E	P/E Rel. to S&P 500
	Current	Previous		
1996A	\$1.22	—	22.7x	0.97x
1997E	1.47	—	18.9	0.89
1998E	1.60	—	17.3	0.87

A Actual. E Salomon Brothers Inc estimate.  
Source: Salomon Brothers Inc

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## SUMMARY AND INVESTMENT CONCLUSION

Initiated coverage with  
a buy rating

We have initiated coverage of Cincinnati Bell Inc. (CSN) with a rating of Buy. Despite its name, CSN is actually a blend between a computer services company and a phone company. While the company still earns roughly half of its revenues and operating income from the local telephone company serving the Greater Cincinnati area (Cincinnati Bell Telephone — CBT), it also consists of two significantly faster growth companies, namely a leading third-party provider of customer-care and billing solutions to the worldwide communications industry (Cincinnati Bell Information Systems — CBIS), and a leading teleservices company (MATRIX Marketing Inc.).

We expect CSN to benefit as its faster growth billing and teleservices companies (CBIS, MATRIX) contribute an increasing percentage of the overall company's earnings, and as the phone company manages its market share losses caused by the deregulation of its market. The underlying trend driving the strong growth at CSN's customer care businesses is a greater emphasis on marketing and customer service in the increasingly deregulated communications marketplace. We expect CSN's EPS to increase from an estimated \$1.47 in 1997 to \$1.60 (+9%) in 1998 and to \$1.95 (+22%) in 1999, with the disparate growth rates caused by heavy Year 2000 expenditures and mandated telecom costs in 1998. Before these items, we expect growth of 17% in 1998 and 11% in 1999.

We believe the stock  
offers value.

While Cincinnati Bell is no longer the undiscovered value that it was a few years ago, we believe it remains an undervalued asset. Based on our sum of the parts analysis, we believe the stock could be worth \$36 over the next 12-18 months.

## BUSINESS OVERVIEW

In 1983, in anticipation of future competition in its core local telephone business, Cincinnati Bell decided to expand its operations to both diversify itself into higher growth, less regulated areas and to enter businesses that it believed would benefit from the anticipated deregulation of the telecommunications market. In conjunction with that decision, CSN split its data processing unit into a separate business unit and began offering data processing services to other companies. A few years later, CSN entered the teleservices industry through a series of acquisitions. Both of these businesses benefit from the growing trend among higher growth communications companies to outsource these customer-care functions. The businesses also leverage the expertise that they have developed while providing these services to CSN's own telecommunications company, Cincinnati Bell Telephone.

CSN's customer care  
businesses represent  
more than 50% of its  
revenues and nearly  
half of its operating  
income.

The decision has paid off as both businesses have grown rapidly over the last several years and now account for about 53% of consolidated revenues and 46% of total operating income. Communications Services makes up the remainder of the revenues and operating income, with the company's flagship unit, Cincinnati Bell Telephone, accounting for about 37% of consolidated revenues and operating income (see Figure 2). Other businesses within Communications Services include: Cincinnati Bell Long Distance (CBLD), which resells long distance services and products as well as voice mail and paging services; Cincinnati Bell Directory Inc. (CBD), which provides Yellow Pages and other directory products and services, as well as information and advertising services; and Cincinnati Bell Supply

(CBS), which markets computer and telecommunications equipment. CSN also owns a 45% stake in a cellular partnership which provides services in much of central and southern Ohio, including the Greater Cincinnati area, and was the successful bidder for a 10mhz license to offer PCS service in the Greater Cincinnati area.

**Figure 2. Cincinnati Bell Inc. — Revenue/Operating Income Breakdown, 1996-1998**

	Revenues			Operating Income		
	1996A	1997E	1998E	1996A	1997E	1998E
Communications Services	49.3%	46.5%	43.5%	56.5%	53.5%	48.0%
CBIS	27.6	28.4	29.4	27.9	32.3	35.4
MATRIX	23.1	25.1	27.1	16.2	14.0	16.6
Corporate/Eliminations	0.0	0.0	0.0	(0.5)	0.2	0.0
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Memo:

Cincinnati Bell Telephone	41.1%	37.1%	34.2%	45.1%	36.9%	32.3%
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A Actual. E Salomon Brothers Inc estimate.

Sources: Company Reports and Salomon Brothers Inc.

## **CINCINNATI BELL INFORMATION SYSTEMS - INCREASED COMPETITION IN COMMUNICATIONS INDUSTRY DRIVES STRONG GROWTH**

We expect Cincinnati Bell Information Systems (CBIS) to account for 28% of consolidated 1997 estimated revenues and 32% of total estimated operating income. CBIS is the largest provider of billing and customer care services to the communications industry (See Figure 3).

**Figure 3. Comparison of Publicly Traded Third-Party Billing Companies (Dollars in Millions)**

Company	Ticker	Revenues <sup>a</sup>	Operating Margin	Primary Area of Focus
<b>CBIS (sub. of Cincinnati Bell Inc.)</b>	<b>CSN</b>	<b>\$535.0</b>	<b>18.4%</b>	<b>Wireless</b>
USCS International	USCS	\$286.8	12.6%	Cable
CSG Systems International, Inc.	CSGS	\$162.7	20.4%	Cable
Billing Information Concepts Corp.	BILL	\$122.8	28.2%	Wireline
LHS Group Inc.	LHSG	\$93.3	14.5%	Wireless
Saville Systems PLC	SAVLY	\$90.5	27.1%	Wireline

<sup>a</sup>LTM ended September 1997.

Sources: Company Reports and Salomon Brothers Inc estimates.

### **Huge Market in Which Competition and Complexity Drive Outsourcing**

Based on an independent third-party study, CBIS estimates that the total U.S. market for billing and customer-care services used by the communications industry was at least \$6 billion in 1996. This figure includes the estimated cost of customer-care and billing services used by wireline (about 75% of total), wireless (15-20% of the total), and cable television (roughly 10% of the total) providers, including the in-house portion.

As communications markets worldwide are deregulated and become more competitive, marketing and customer service are becoming much more important. With these changes, advanced information systems designed to be flexible, scaleable and with customer service as a focus have become critical to success. The complexity required of these systems increases even more significantly as the lure of convergence drives many participants in the communications industry to expand outside their traditional markets, creating situations in which they offer multiple services (for example, wireless, land-line telephony, cable) in multiple geographic locations. CBIS has developed, or acquired, a broad range of systems to meet these increasingly sophisticated needs and to provide its clients with a competitive advantage.

nent. CSN  
services in  
nnati area,  
service in

Income	
1997E	1998E
5%	48.0%
3	35.4
0	16.6
2	0.0
0%	100.0%
9%	32.3%

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CBIS generally provides these services in a service bureau environment (roughly 60% of CBIS's revenues) where its experience providing billing and customer-care services results in significant cost and service advantages for its clients. These advantages include predictable service costs, information management expertise, and access to an advanced billing system without diverting key capital and personnel away from the client's core business and technology development efforts. We believe these advantages will continue to drive outsourcing, and therefore CBIS, for years to come.

**Particularly Leveraged to the Growth in the North American Wireless Industry**

CBIS's particular focus is on providing billing solutions to the wireless telecommunications market in North America (including both cellular and personal communications services (PCS)). It earned approximately \$315 million (66% of revenues) from cellular clients in 1996, up 23% from \$257 million (69% of revenues) in 1995. These figures include revenues from its regular service bureau billing services as well as from various consulting and programming projects for wireless clients.

CBIS has been a direct beneficiary of the rapid growth in wireless subscribers as its regular monthly service bureau fees are typically tied to the number of bills produced for its client's subscribers each month. Management has also indicated that consulting/programming work also tends to increase as its clients grow. The number of wireless subscribers (including cellular, PCS and other forms, but with the vast majority being cellular) in the United States has grown more than 25% per year over the last several years (see Figure 4). While many industry experts expect wireless subscriber growth to slow from its current levels, growth is expected to remain in the high-teens to low twenties through 1999 as the mass rollout of PCS is expected to offset at least a portion of the slowdown in traditional cellular service.

Figure 4. U.S. Wireless Subscriber Growth, June 1990-June 1997

	1990	1991	1992	1993	1994	1995	1996	1997
Subscribers (000s)	4,369	6,380	8,893	13,067	19,283	28,154	38,195	48,706
Yr./Yr. Growth	62.3%	46.0%	39.4%	46.9%	47.6%	46.0%	35.7%	27.5%

Source: Cellular Telecommunications Industry Association.

We expect CBIS to continue to benefit from the growth in wireless subscribers as it provides billing services for approximately 30% of cellular subscribers and includes many of the top cellular carriers among its clients, including AT&T Wireless, 360° Communications and Ameritech. CBIS should also be well positioned to benefit from the rollout of PCS as it has signed contracts to provide billing services to the three largest potential providers of PCS in the United States. In total, these clients (Sprint PCS, AT&T Wireless, and PrimeCo Personal Communications, L.P.) cover more than 2/3 of the potential subscribers for PCS's largest, regional-market licenses (that is, A and B licenses).

**Expansion Into New Service Areas Provides Opportunity for Future Growth**

While we believe CBIS's primary growth driver over the next few years will continue to be providing billing services to domestic wireless service providers, it also has service offerings for both wireline and cable providers, as well as for the emerging convergence marketplace. Furthermore, CBIS has been using acquisitions to expand internationally.



CBIS's U.S. wireline billing solution provides it with the ability to compete for business in the largest potential segment of the billing market (the local and long distance market), but where outsourcing is still relatively limited. The company currently only provides outsourced billing services to Cincinnati Bell Telephone, but it does do a significant amount of consulting and programming work for wireline carriers such as AT&T. It has also signed a new outsourcing agreement to support AT&T's proposed re-entry into the local phone market. While AT&T has done little in the area to date and is currently re-evaluating its strategy, it is a major player in the marketplace and offers a good endorsement for CBIS's services.

CBIS believes that its best opportunity for new billing contracts within the U.S. wireline market is with the new competitive local exchange carriers (CLECs). As the local telephone markets are deregulated and attract new entrants, CBIS believes that most CLECs will focus their limited resources on providing core telephone services, rather than on developing billing systems. The RBOCs and other established local and long distance phone companies are also potential candidates, but will be more difficult to sign given their scale and the level of investment they have already made in their current systems. CBIS expects the majority of the opportunities within the RBOC segment of the market to be for systems integration work, rather than new system installations.

We also believe CBIS has significant opportunity for growth internationally. Currently, only about 10% of CBIS's revenues are from outside the U.S. with the primary sources being IT consulting engagements within the telecommunications sector (predominately for wireline providers) and license revenues from cable billing software, along with a small percentage of licensed wireline business. CBIS is, however, increasing its focus on the international arena and believes it can be a significant contributor to future growth, particularly as it leverages its expertise in wireless billing.

CBIS is also the third largest provider of billing systems for the cable marketplace in the United States. Its clients include Time Warner, Comcast and Cox Communications. It has been steadily increasing its market share of subscribers, predominately by gaining additional subscribers from current clients, but has also signed some new clients. CBIS estimates its current U.S. market share at about 17% and expects that share to be about 20% by the end of the year based on already committed new business (again mostly from existing clients). Unlike most of CBIS's systems, its cable systems are predominately sold on a license basis and run by the client on its own systems, rather than in a service bureau environment. CBIS has, however, introduced a service bureau alternative and now has a few clients running on the new system. Over time, CBIS hopes to divert clients to the service bureau solution to increase its percentage of recurring revenues.

#### **Data Processing Drives Growth Into The Next Century**

We expect CBIS's revenues to grow about 15% in 1998 to \$627 million and 15% in 1999 to \$721 million.

Data processing revenues currently account for approximately 60% of CBIS's revenues and are expected to grow in the mid- to high-teens over the next few years. Excluding new client signings, revenue growth is expected to lag behind overall wireless industry subscriber growth (expected to be in the high-teens to low-twenties) as CBIS typically passes on some of the benefits from declining processing costs to its clients in exchange for longer term contracts.

**MATRIX  
CLIENTS**